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**Version:** Final

**Date:** 2004

**Summary:** This document describes Cash Management and Investments that will be applicable to the Theewaterskloof Municipality detailed.

**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Municipal Manager**

**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Executive Mayor**

## **CASH MANAGEMENT AND INVESTMENT POLICY FOR THE THEEWATERSKLOOF MUNICIPALITY**

### **1. INTRODUCTION**

In terms of Section 13(2) of the Local Government: Municipal Finance Management Act, 2003 (Act No.56 of 2003)“(The Act)”, the municipality **must** establish an appropriate and effective cash management and investment policy with the implementation date being 1 July 2004.

The Minister of Finance urged all Municipalities, in Government Gazette 26945 of 29 October 2004, to prepare for implementing proposed new regulations immediately, and permitted the application of the draft regulations, published in the gazette, in the explanatory notes on the draft regulations. Due to the delay in the promulgation of the regulations and the fact that the municipality must have an investment policy consistent with the abovementioned Act as well as the permission to implement the draft regulations, this policy, which complies with the requirements of the Act as well as the draft regulations, was prepared.

**The Theewaterskloof Municipal Council considered and approved on ..... the underlying policy as its “Cash Management and Investment Policy” to which all functionaries of the municipality involved in cash management and investments must comply.**

## **2. SCOPE OF THE POLICY**

In order to ensure sound and sustainable management of the cash resources of the municipality this policy addresses all principles and processes involved in cash management and investments and includes:

- The objectives of the policy;
- Standard of care;
- Delegation of authority;
- Management and internal control procedures;
- Cash flow budgeting;
- Working Capital Management;
- Receipting and banking of cash;
- Payments;
- Short and long term debt and debt restructuring;
- Investment ethics, principles and practices;
- Reporting and monitoring requirements;
- Performance standards and measurement;
- Review of the policy.

## **3. OBJECTIVES OF THE POLICY**

The objectives of the policy are to ensure optimal performance with the least possible risk, in managing and investing the cash resources of the municipality and to ensure transparency, accountability and appropriate lines of responsibility in the process.

## **4. STANDARD OF CARE**

Each functionary in the cash management and investment process must do so with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of his or her own affairs and with his or her primary regard being to the probable safety of his or her own capital, in the second instance to his or her liquidity needs and lastly to the probable income derived.

Speculation may not be undertaken in any of the processes.

## **5. DELEGATION OF AUTHORITY**

The management of all the cash resources of the municipality is the responsibility of the Municipal Manager who must, for the proper application of this policy, develop an appropriate system of delegation that will both maximise administrative and operational efficiency and provide adequate checks and balances in the management of the cash resources.

The Chief Financial Officer, as designated in writing by the Municipal Manager, must advise the Municipal Manager on the exercise of the powers and duties with regards to this policy and must assist the Municipal Manager in the administration of the cash resources, the bank accounts and the investment accounts. The Chief Financial Officer may not sub – delegate the duty to assist the Municipal Manager in the administration of the municipality's bank and investment accounts.

The delegation to withdraw money from the municipality's bank or investment accounts may only be given to the Chief Financial Officer or any other senior financial officer as determined, in writing, by the Municipal Manager and of which a copy, signed by the Municipal Manager, must be kept with the official set of delegations of the municipality.

The Municipal Manager may not delegate any power or duty in the administration of the municipality's cash resources to a political structure or councillor and no councillor is allowed to interfere or attempts to interfere in the management of the municipality's cash resources.

Any delegation by the Municipal Manager in terms of this policy:

- Must be in writing
- Is subject to any limitations and conditions as the Municipal Manager may impose
- May either be to a specific individual or to the holder of a specific post in the municipality and may not be to a committee of officials
- Does not divest the Municipal Manager of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.

The Municipal Manager may confirm, vary or revoke any decisions taken in consequence of a delegation or sub – delegation in terms of this policy, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.

For the application of this policy any referral to “Municipal Manager” also means “Any other person acting under a delegated power or performs a function delegated by the Municipal Manager” in terms of paragraph 5.

## **6. MANAGEMENT AND INTERNAL CONTROL PROCEDURES**

The Municipal Manager, assisted by the Chief Financial Officer, must take all reasonable steps to ensure:

- That the municipality has and maintains a management, accounting and information system that accounts for all bank and investment accounts, receipting, withdrawals, cash management and investment transactions
- That, in the case of investments, such investments are valued in accordance with standards of generally recognised accounting practices
- That, in the case of investments, revenue due is calculated on a monthly basis
- That the municipality has and maintains a system of internal control over its bank and investment accounts, receipting, withdrawals, cash management and investment transactions

The Internal Audit unit must advise the Municipal Manager and evaluate and report on compliance with the above, at least on an annual basis.

## **7. CASH MANAGEMENT**

### **7.1 Bank account administration**

The Municipal Manager is responsible for the administration of the municipality's bank accounts including the opening of the bank accounts, the designation of the primary bank account and all banking and withdrawal procedures. The bank account may only be managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Chapter 3 of the Act as well as section 64 of the Act.

The Municipal Manager may delegate the duties attached to the administration of the bank accounts as per paragraph 5 of this policy.

### **7.2 Receipting Management**

The Municipal Manager is responsible for the administration of all receipting procedures and must take all reasonable steps to ensure receipting is being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 64 of the Act.

The Municipal Manager may delegate the duties attached to receipting as per paragraph 5 of this policy.

### **7.3 Expenditure Management**

The Municipal Manager is responsible for the administration of all expenditure procedures and must take all reasonable steps to ensure expenditure is being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 65 of the Act.

The Municipal Manager may delegate the duties attached to expenditure as per paragraph 5 of this policy.

### **7.4 Withdrawals**

The Municipal Manager is responsible for the administration of all withdrawals procedures and must take all reasonable steps to ensure withdrawals are being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 11 of the Act.

The Municipal Manager may delegate the duties attached to withdrawals as per paragraph 5 of this policy.

### **7.5 Debt Management**

In order to ensure adequate cash – flow the municipality may incur short – or long term debt, provided that the Council approves all debt agreements, the Mayor must sign the resolutions approving the debt agreements and the Municipal Manager signed the debt agreements.

The municipality is, in terms of Section 46(5) of the Local Government: Municipal Finance Management Act, 2003, allowed to refinance its long – term debt for the purpose of saving on the cost of debt. The Municipal Manager must, for this purpose, at least annually and as part of the budget process evaluate and report to the Council on the cost of existing debt and whether re-financing such debt will be beneficial to the municipality. As part of the evaluation the Municipal Manager must determine the types of repayments and whether bullet payments at the end of the debt period and the reasonably determined nett cost thereof will not be more beneficial to the Council if the repayments are invested in sinking funds and the reasonable projected yield on the investments are being brought into account.

The Municipal Manager is responsible for the administration of all debt procedures and must take all reasonable steps to ensure debt is being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Chapter 6 of the Act.

The Municipal Manager may delegate the duties attached to debt management as per paragraph 5 of this policy.

## **7.6 Cash-flow Budget**

In order to ensure that the municipality has sufficient cash available to comply with the municipality's commitments to its lenders, creditors, statutory payments and any other commitments, it is necessary to annually compile and submit to Council, as part of the budget documentation, a cash-flow projection for the budget year by revenue-source, broken down per month.

## **7.7 Working Capital Management**

The Municipal Manager must take all reasonable steps to ensure that the municipality obtains maximum performance on its assets and for this purpose the working capital of the municipality must as far as possible be managed to the maximum benefit of the municipality.

An acceptable level for the Working Capital Reserve is 2:1 or better and the Municipal Manager must take all reasonable steps to ensure that the level is being maintained. In calculating the level, outstanding debtors for a period longer than 90 days as well as any unutilised conditional grants and allocations must be deducted from the current assets and liabilities and inventories must be brought into account at the lower of cost and net realisable value. The exercise to provide for a sufficient level of working capital must be done as part of the budget process in order to budget accordingly. Inventory levels for own use, must be kept as low as possible, creditors must be paid within 30 days of date of receipt of invoice or statement, whichever is the latest or applicable but as late as possible but with due regards to possible discounts on offer and all steps, consistent with the Council's Credit Control and Debt Collection Policy, must be taken to recover moneys due to the municipality.



The Municipal Manager must, as part of the monthly reporting to the Mayor within 10 working days of the end of each month, report on:

- The combined nett balance of the bank and investment accounts of the municipality excluding any balances of unutilised conditional grants, trust moneys kept in accordance with trust deeds, Sinking Fund Investments made in accordance with any loan- or other agreements with investors/lenders, other conditional funds for which moneys were received in accordance with Section 12 of the Act, Debt Guarantee Reserve Funds and other cash- backed funds for which spending authority must be obtained from other persons or spheres of government.
- Whether the above nett balance is sufficient to make a payment of at least 2% of the operating budget of the municipality.
- Whether all commitments and accounts had and can be paid on time from the nett balance above and nett realisable accounts receivable.
- Whether there is a nett outflow of cash not in accordance with the cash-flow budget.
- Whether all of the above might cause a financial problem on which the Mayor must act in accordance with the provisions of the Act.

The Mayor must, within 30 days of the end of each quarter, report to the municipal council on the above, and, in the case of identifying a financial problem, promptly inform the council and act in accordance with the provisions of the Act.

## **8. INVESTMENTS**

### **8.1 Investment Management**

The Municipal Manager is responsible for the administration of all investment procedures and must take all reasonable steps to ensure investments are being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 13 of the Act.

The Municipal Manager may delegate the duties attached to investments as per paragraph 5 of this policy.

In order to ensure that the Municipal Manager or any person delegated in terms of paragraph 5 complies with this policy in terms of investments and to capacitate the municipality further, the Municipal Manager may contract an Investment Manager who is a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act (Act No. 55 of 1989) and Stock Exchanges Control Act (Act No. 1 of 1985). The Investment Manager must advise the Municipal Manager or delegated officials on investments and may manage investments on the municipality's behalf, subject to any conditions and controls the Municipal Manager may determine.

### **8.2 Investment Ethics**

All functionaries in the investment management process must act with fidelity, honesty, integrity and in the best interest of the municipality and must seek, within the spheres of influence of the functionaries, to prevent any prejudice to the investments of the municipality.

No functionaries in the investment management process may use their position or privileges of, or confidential information obtained as, functionary in the process for personal gain or to improperly benefit another person.

No person contracted by the municipality for the purpose of investments or no person submitting quotes, bids or any other means of competitive submissions may, either directly or through a representative or intermediary promise, offer or grant any reward, gift, sponsorships, loan, bursary, favour or hospitality to –

- Any official, spouse or close family member of such official or spouse;

- Any councillor, spouse or close family member of such councillor or spouse.

The Municipal Manager must promptly report to the Mayor and National Treasury any alleged contravention of the above and may make recommendations as to whether the alleged offending party should be listed on the National Treasury's database of persons prohibited from doing business with the public sector. Any such report by the Municipal Manager must give full details of the alleged breach and a written response from the alleged offending party, as well as proof that the alleged offending party received the allegations in writing and were given at least 7 (seven) working days to respond, in writing, to the allegations.

Any sponsorships promised, offered or granted to the municipality must promptly be disclosed to the National Treasury.

### **8.3 Investment Objectives**

#### **8.3.1 Objective 1 - Security**

The first and foremost objective for investments is the preservation and safety of the principal amount invested. It is a requirement of this municipality that investments may only be made with institutions with a credit – worthy rating of A 1 and better. Any investments made must be liquidated immediately if an institution's credit – worthy rating falls below the level of A 1.

#### **8.3.2 Objective 2 - Liquidity**

The cash – flow budget must be used as an instrument in determining liquidity needs. Other factors such as the payment runs for creditors, dates for salary and statutory payments and dates for debt repayments must also be brought into account to ensure cash requirements, and resultant investment periods, are being calculated to such an extent that maximum yield on surplus cash can be obtained.

#### **8.3.3 Objective 3 - Yield**

It is necessary to ensure optimal yield on the municipality's investments, but a higher yield should never increase the risk of preservation and safety of the principal amount invested or not meeting cash – flow requirements. Where an institution has a sudden increase above the average market increase in investment returns, the Municipal Manager must determine whether the institution is in liquidity or financial problems, and in such an instance liquidate the investments with such an institution as soon as possible.

#### **8.4 Types of investment accounts**

The following cash – backed investment accounts should be established:

- General surplus cash
- Asset financing reserve fund
- Accumulated leave fund
- Trust funds where a trust- deed exist
- “Allocation “ funds as described in Section 1 of the Local Government: Municipal Finance Management Act, 2003, but excludes the equitable share
- Sinking funds, if applicable
- Debt guarantee reserve fund, if applicable
- Post retirement benefits funds
- Self – insurance reserve, if applicable
- Housing development funds

Where a Trust Deed prescribes how the trust money is to be invested, the prescriptions in the Trust Deed will prevail over this policy.

It is a general principle, the higher the investment the better the yield, and for this purpose the Municipal Manager should combine as much cash allocated to the above funds as possible, and invest it together. Yield should then be allocated according to the capital of the individual cash – backed funds, through the Statement of Financial Performance.

#### **8.5 Approved Investments**

Investments should be structured according to the best yield available and the liquidity needs of the municipality. This can include Call Deposits, Fixed Term Deposits and Endowment Policies for the purpose of Sinking Funds only. Sinking funds must be created for the purpose of bullet – payment loans and to provide for future commitments such as building enough cash to be able to cover post – retirement benefits in full.

#### **8.6 Qualifying Institutions**

It is of utmost importance that the investments only be placed with credit – worthy institutions with a credit – rating of A 1 and better.

The following investments are permitted:

- Securities issued by National Government
- Listed corporate bonds with an investment grade rating from a nationally or an internationally recognised credit rating agency
- Deposits with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)
- Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act 45 of 1984)
- Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984)
- Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)
- Guaranteed endowment policies with the intention of establishing a sinking fund
- Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)
- Municipal Bonds issued by the municipality
- Any other as might be approved by the Minister of Finance

### **8.7 Investment Diversification**

Without limiting the Municipal Manager to any specific amount or percentage of investments, it is hereby established that investments made by the municipality should be diversified as much as possible between different institutions, maturity dates and types, but nothing prevents the Municipal Manager from investing more cash with an institution than by another institution with due regards to the standard of care and objectives set in this policy.

### **8.8 Competitive selection of bids or offers**

In establishing where investments must be made, at least 3 (three) written quotations must be obtained by the Municipal Manager from any of the institutions listed in paragraph 8.6 above. The Municipal Manager may not divulge interest rates to other institutions during the quotation process. If Investments Managers use treasury desks for the purpose of obtaining quotations, the quotations, with a written reason why a specific institution was chosen if the yield is lower than that of another institution, must be forwarded to the Municipal Manager, who must evaluate the reasons and issue such instructions as deemed necessary.

### **8.9 Commissions or Costs**

No commission for investments made or referred is payable to an official or councillor, or spouse, business partner or close family member of an official or councillor by an institution or investment manager.

Any commissions, other rewards or costs paid to an investment manager by an institution must be declared to the municipality by the institution and Investment Manager by way of certificates. Any quotation given to the municipality by an institution or Investment Manager must be net of costs, rewards or commissions, but must also indicate the commissions, rewards or costs which will be paid in respect of the investments.

#### **8.10 Forbidden Activities**

- No investments may be made other than in the name of the municipality
- Money may not be borrowed for the purpose of investments
- No person, including officials and councillors, may interfere or attempts to interfere in the management of investments entrusted to the Municipal Manager or persons delegated by the Municipal Manager including with the Investment Managers.
- No investments may be made other than be denominated in Rand and which is not indexed to, or affected by, any fluctuations in the value of the Rand against any foreign currency.

#### **8.11 Reporting**

The Municipal Manager must, in addition to the reporting in paragraph 7.7 above, within 10 working days of the end of each month submit to the Mayor a report describing in detail the investment portfolio of the municipality as at the end of the month.

The report referred to above must contain at least a statement, prepared in compliance with generally accepted municipal accounting principles, as amended from time to time, that gives the

- Beginning market value of each investment for the month
- Additions and changes to the investment portfolio for the month
- Ending market value of each investment for the month
- Fully accrued interest/yield for the month including interest/yield capitalised or paid out

The Municipal Manager, in making investments, must remind the relevant institutions of the institutions' legal reporting responsibilities in terms of Section 13 (3) and 13 (4) of the Local Government: Municipal Finance Management Act, 2003 and must get a certificate from the institutions that the institutions will comply with the Act. A single certificate per institution for any current and future investments may be obtained and must be kept on the municipality's investment file.

## **9. REVIEW OF THE POLICY**

This Cash Management and Investment Policy is the sole policy governing cash management and investments in the municipality. Any reviews to this policy must be approved by the Municipal Council.

The Mayor must submit any proposed changes to this policy to the Council as part of the annual review of policies submitted with the budget documentation.

Whenever the Minister of Finance or the National Treasury or the Auditor-General requires changes to the policy by means of legislation or requests it should be reviewed promptly in accordance with such requirements, giving full details of the reasons for the revision.